

Publications

Europe Undivided: Democracy, Leverage, and Integration After Communism

by Milada Vachudova

This article continues a conversation introduced by Wade Jacoby in "The Enlargement of the EU and NATO: Ordering From the Menu, in the June 2005 issue of ESN.

The 1990s marked a decade of remarkable policy innovation for the European Union, especially in areas distinct from the common market, such as borders, foreign policy, and enlargement. EU leaders created a common currency, lifted internal border controls, put foreign and security policy at center stage, and paved the way for up to eighteen neighboring countries to join the EU. But all of this activity also demanded broad popular appeals — appeals that never came — as integration encompassed issues at the heart of national campaigns. Now attention has turned to the fallout from the “no” votes in the French and Dutch referenda on the EU’s constitution. Every year or two, the EU is declared “in crisis,” and the failure of the EU constitution is but the latest such episode. Still, observers are taking this setback seriously and, depending on their attitude toward the European integration, are predicting that these referenda have ushered in a period of consolidation, of stagnation, or of deterioration for the EU.

The “no” votes have brought the question of continuing EU enlargement to the fore. Some citizens believe that EU enlargement has caused unwanted immigration, undermined their economic opportunities, and broadened the EU “club” to include people they do not trust. This is but one way that the EU has been charged with moving ahead too rapidly, with little consensus-building or even communication with its citizens. For enlargement, the point is well-taken: few West European politicians ever bothered to try to convince their constituents that enlargement was in the national interest by explaining its economic and geopolitical benefits. As a result, the national debates on enlargement were dominated by fringe parties that connected enlargement — and the EU more generally — with illegal immigration and unemployment; few moderate politicians bothered to respond by making the case that enlargement helps regulate immigration and spark economic growth. In these circumstances, it is not surprising that further enlargement, especially to Turkey, is unpopular.

Some elites are reflecting once again on the trade-offs between widening (to more members) and deepening (integration) even as they come to grips with the reality of so many new members having joined the EU last year. Few would question that moving forward with European integration is more difficult with 25 members (soon to be 27) than it was with 15, especially since new members will take several years to integrate themselves fully into the EU’s institutions and also into the internal market. For certain EU countries, such as France, the dilution of influence in an EU of 25 has inspired dreams of a new “inner core” of states that would wield power over the other members, moving forward on the proverbial bicycle of European integration with no obstacles (except of course their own opposition to a federal EU and the skepticism of their own voters). More seriously, there is a consensus that the EU can absorb only so many new members at once, and a debate about whether to set strict geographic limits on further expansion.

Yet shelving future EU enlargement altogether would be extremely difficult. Romania and Bulgaria have already signed their accession treaties, and will enter in 2007 or 2008. For the Western Balkan states of Croatia, Macedonia, Serbia-Montenegro, Albania, and Bosnia-Herzegovina, moving through the process of qualifying to join the EU offers the only real prospect for stability, democracy, and economic revitalization. Integrating the Western Balkan states into the EU is the cornerstone of the long-term foreign policy of all international actors toward the region. Today, strict EU conditionality is the most important (if not the only) reason why the Croatian and Serbian governments are turning over war criminals to the International Criminal Tribunal for the former Yugoslavia (ICTY) in the Hague. For Turkey, Ukraine, Moldova, and other aspiring candidates, however, the current political climate in the EU is a serious setback for their EU membership prospects. Ukraine and particularly Turkey are large states that, for myriad reasons, would be difficult for the EU to absorb, even if the benefits of doing so would be considerable.

Still, it will be hard for the EU to walk away even from Turkey or Ukraine (though walk away it may). The reason is simple: walking away would forgo the opportunity for the EU to exercise its leverage to promote liberal democracy, minority rights, and the free market. In the case of Turkey, this leverage has already moved mountains in the areas of political and economic reform. Enlargement has turned out to be the EU's most effective foreign policy tool. More by accident than by design, the EU has probably presided over the most successful democracy-promotion program ever implemented by an international actor. If it can coax the Western Balkan states down the path taken by Bulgaria and Romania, there will be no question that this is true. Abandoning enlargement would have visible costs for the credibility of the EU's emerging foreign policy, and for the geopolitical and economic stabilization of its neighboring regions. Yet to strengthen the EU's foreign policy, national leaders and publics would have to accept, as a matter of course, the immediate domestic costs of pursuing the EU's long-term foreign policy goals — and here the winds certainly do seem to be blowing in the other direction.

Whatever course EU enlargement may take over the next decade, it is important to understand how EU leverage has worked in shaping political and economic reforms in credible candidate states. In the rest of this short essay based on my recent book, *Europe Undivided*, I will unpack the nature of the EU's leverage before turning briefly to the impact of this leverage on domestic politics in democratizing states. I will conclude with some thoughts about whether the EU's new European Neighborhood Policy (ENP) can succeed in harnessing some of the power of EU leverage without offering a credible prospect of membership.

The Leverage of the European Union

It is striking how rapidly and universally membership in the EU became the destination of the revolutions of 1989. By the end of 1990, several postcommunist governments had already embraced joining the EU as their most important foreign policy goal, and more would follow. Despite fears of diminished national sovereignty and increased economic vulnerability, EU membership emerged as a matter of national interest because it offered substantial geopolitical, sociocultural and economic benefits. I have created the concepts of "passive" and "active" leverage to separate theoretically the kinds of influence that the EU can have on states that wish to join it. By passive leverage I mean the

attraction of EU membership, and by active leverage I mean the deliberate conditionality exercised in the EU's pre-accession process.

Passive Leverage

The EU's passive leverage is the attraction or magnetism of EU membership, absent any deliberate policies toward prospective members. It is the traction that the EU has on the domestic politics of credible candidate states merely by virtue of its existence, and its usual conduct. The track record of passive leverage alone in shaping domestic policies in aspiring members is limited, but it is the foundation of the EU's active leverage, discussed below.

The EU's passive leverage is based on the political and economic benefits of membership, and also on the costs of exclusion. The political benefits of EU membership include a voice in EU affairs, and also the protection of EU rules. For weak states on the EU's borders, joining the EU regulates relations with powerful neighbors by way of a desirable set of clear and well-established rules. The rules of institutions strengthen the norm that principles of conduct must be generalized to all members, favoring weaker states. For the EU's postcommunist neighbors, one of the main motivations for seeking the protection of EU rules was early vulnerability to EU protectionism.

The economic benefits of EU membership are manifold, centering on inclusion in the internal market, transfers of know-how, and transfers from the EU budget. Entering the EU is expected to raise domestic output and growth rates by stimulating entrepreneurship, foreign direct investment (FDI), and technology transfers. Studies indicate that because of raised investor confidence, FDI inflows have been concentrated in those postcommunist states that were at the front of the queue to join the EU. Locking the applicants into the EU legal and regulatory frameworks also promises to improve administrative capacity and, all together, facilitate fuller insertion into the EU and global economy — thereby bringing substantial opportunities for higher returns to the national budget over the long run. While the financial transfers from the EU budget for the newest members have been modest, they are still economically significant, especially for Bulgaria and Romania.

The EU's passive leverage is also created by the overall cost of being excluded from the EU. This cost is largely determined by the way that the EU treats non-member states. For the EU's neighbors, market access for agricultural and other sensitive goods remains restricted, while all other exports to the EU run the ongoing risk of incurring various forms of contingent protection. This takes on unusual importance given the sheer size of the EU market and the striking poverty of the proximate alternatives, particularly of the post-Soviet market. For those that fail to enter an enlarging EU along with their neighbors, there are also other economic consequences: a steady flow of aid, expertise, and foreign direct investment is diverted away from states that do not join the EU toward those that do. The costs of exclusion can weigh heavily on relatively rich states as well as poor ones. Walter Mattli has shown that economic integration can cause three kinds of negative externalities for states left outside: trade diversion, investment diversion, and aid diversion. These costs help explain the applications for EU membership of rich West European states as well as relatively poor states from postcommunist Europe (Mattli 1999).

Active Leverage

Active leverage is animated by the fact that the substantial benefits of EU membership create incentives for states to satisfy the enormous entry requirements. We may hypothesize that for any international institutions the greater the benefits of membership, the greater the *potential* political will in applicant countries to satisfy intrusive political and economic requirements. Following this logic alone, we may conclude that the benefits of EU membership for East European states must be immense: at no time in history have sovereign states voluntarily agreed to meet such vast domestic requirements and then subjected themselves to such intrusive verification procedures to enter an international organization.

The *potential* political will to satisfy the EU's entry requirements set the stage for the effectiveness of conditionality within the EU's pre-accession process. This process has mediated the costs and benefits of satisfying EU membership criteria in such a way as to make compliance attractive — and noncompliance visible and costly. In addition to the benefits and the requirements of membership, I argue that three characteristics of the pre-accession process — of the way that the EU “delivers” political and economic conditionality — have made the EU's active leverage effective. They are asymmetric interdependence, enforcement, and meritocracy. These characteristics amplify the incentives to comply with the EU's membership requirements, because they make the EU's threat of exclusion as well as its promises of membership more credible. In the run-up to the 2004 enlargement, with certain exceptions, the right balance was struck: candidates were neither too confident (thanks to asymmetric interdependence), nor were they too disingenuous (thanks to enforcement), nor did they despair that the system was stacked against them (thanks to meritocracy).

Ultimately the pre-accession process is centered on a strategy of gate-keeping. If a candidate does not comply, it can be held back from the next stage in the process. For the first eight postcommunist candidates, the main stages were (1) beginning screening, (2) opening negotiations after satisfying the Copenhagen Criteria, (3) closing particular chapters in the negotiations, and (4) completing the negotiations. A candidate could move up thanks to accelerated reform, or slip back as a sanction for unfulfilled promises to implement reform, though toward the end of the process the decision to admit eight postcommunist states all at once in 2004 was a political one. For Bulgaria and Romania, a fifth step has been added consisting of a final evaluation of their administrative capabilities — with the possibility of postponing accession by one year. For the Western Balkan states, several stages have been added at the front-end of the process: (1) a feasibility study for opening negotiations on an association agreement, called the Stabilization and Association Agreement (SAA), (2) negotiating the SAA, and (3) signing the SAA. This is not without precedent. In the early 1990s, the EU did attach conditions to signing an association agreement, then called a Europe Agreement, with the first round of postcommunist applicants, though it did not do much to enforce them.

Mechanisms That Translate EU Leverage Into Domestic Political Change

So how does EU leverage translate into domestic political change? In my book, I looked closely at six cases: Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, and Romania. Here I can only sketch some of the mechanisms that I found most important in shaping domestic politics once the EU's active leverage came on line. I argue that in Slovakia, Romania, and Bulgaria, EU leverage helped push democratizing states from illiberal to liberal democracy. By liberal democracy I mean a political system

in which state institutions and democratically elected rulers respect juridical limits on their powers and political liberties. They uphold the rule of law, a separation of powers, and boundaries between the state and the economy. They also uphold basic liberties, such as speech, assembly, religion, and property. Important for our cases, they do not violate the limits on their powers or the political liberties of citizens in order to suppress rival political parties or groups.

In illiberal democracies where the EU requirements were at loggerheads with the sources of political power of ruling elites, progress toward the EU was slow. The EU's active leverage had little success in changing the policies of governing political parties in Slovakia, Bulgaria, or Romania (or indeed in Croatia or Serbia-Montenegro). Instead, by influencing the information and the institutional environment, EU leverage helped create what the illiberal democracies were missing at the moment of transition: a coherent and moderate opposition, and an open and pluralistic political arena. Evaluations of a country's progress within the EU's pre-accession process provided a powerful alternative source of information on the political and economic performance of the government. Meanwhile, the institutional environment was shaped in three ways. First, joining the EU served as a *focal point for cooperation* for disparate groups that opposed the ruling parties. Second, EU membership created incentives for politicians and other elites to *adapt* their political agenda to be compatible with the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe, and other international organizations, as well as the EU. Third, political parties that promised to move the country toward EU membership had to follow through with the *implementation* of specific reforms once in office in order to move forward in the pre-accession process.

All together, these mechanisms helped open up the political arena while at the same time narrowing the parameters of domestic debate. That these states were credible future members of the EU, exposed to the full force of the EU's active leverage, strengthened the hand of liberal forces against illiberal ones: not in a duel where good vanquishes evil, but in an iterated electoral game where, sooner or later, most political actors saw the benefits of moving their own political agenda toward compatibility with the state's bid for EU membership. While I focused on Bulgaria, Romania, and Slovakia in my book, today we can see adaptation and implementation happening, slowly, in the Western Balkans states, especially in Croatia, Serbia-Montenegro, and Macedonia.

For all EU candidates, three other mechanisms are important. First, straightforward *conditionality* is at play: moving forward in the EU's pre-accession process is tied to adopting laws and implementing reform (and this overlaps with the *implementation* mechanism described above). Second, the process itself serves as a *credible commitment* mechanism to ongoing reform, because reversing direction becomes prohibitively costly for any future government. As candidates move forward in the process, governments are thus locked into a predictable course of economic policymaking that serves as an important signal to internal and external economic actors. Third, moving toward EU membership changes the character and the strength of different *groups in society*. This is not just plain conditionality but "transformative" conditionality: the state, the economy, and the society are transformed — in positive ways but also in negative ones — as a result of taking part in a process that lasts for many years. (For two excellent studies that also reveal the possibilities and the limits of the influence of the EU and other international organizations on reforms in East Central Europe, see Jacoby 2004 and Kelley 2004.)

The European Neighborhood Policy: Leverage Without Membership?

So what use will the EU's leverage be in the coming decade or two? Does EU leverage represent a package of carefully crafted long-term policies to promote democracy in Central and Eastern Europe? Not quite. The EU's *passive leverage* — flowing from the benefits of EU membership (and the costs of exclusion) — certainly did not come by design. What is striking, however, is that the EU's *active leverage* — flowing additionally from the requirements of EU membership and the structure of the pre-accession process — did not come by design, either. The requirements are mostly a product of the very high levels of integration among EU member states; for the rest, they were designed to keep undesirable states out of the EU. They were not designed to coax and cajole every conceivable “European” state into making itself desirable. Yet the aspects of the EU's active leverage that were deliberately designed by the European Commission, including the way that conditionality has been “delivered” through the pre-accession process, have worked remarkably well — not always in absolute terms but certainly in comparison to other democracy-promotion efforts attempted by international actors.

Still, the EU did not develop active leverage by design, and it is (again) becoming reluctant to use it. It is important to emphasize that the effectiveness of the EU's active leverage stems from its passive leverage — from the benefits of membership (and the costs of exclusion). Change this equation and the behavior of aspiring members may change as well. An attempt to stave off further enlargement is one way to understand the strategy of the EU's new European Neighborhood Policy. If the EU can attenuate some of the costs of exclusion, then perhaps it can reduce the pressure to take on new candidates for membership. Another way to understand the ENP is as a strategy to use the EU's newfound leverage as widely and intensively as possible as part of the EU's foreign policy. Since the EU has things that other countries want, short of membership, why not use conditionality to parlay them into potent foreign policy instruments?

Both tacks could work, but the EU would have to deliver what these countries want: access to the EU for goods and for people, and also participation in various EU programs, substantial levels of funding, and enhanced political dialogue. But given the EU's singular difficulties in offering what really matters to states on the outside (that are not Switzerland) — access for goods and access for people — efforts to diffuse the EU's passive leverage and separate it from the prospect of membership may be politically just as challenging as further enlargement. Moreover, the EU's episodic ambitions as a geopolitical actor on the world stage and the very real benefits of continued enlargement will make it hard for the EU definitively to part ways with some aspiring members, especially Turkey.

All of this suggests that the drama of EU enlargement is likely to continue. Let us hope that it does. The most important challenge for EU leaders today is to sustain, adjust, and improve the EU's active leverage so that it can work even in the much tougher cases in the Western Balkans. For better (and not, so far, for worse), the most powerful and successful tool of EU foreign policy has turned out to be EU enlargement.

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